

the market. However, if the States allow local competitors to limit service to low cost areas served by rural telephone companies, significant reconsideration of all pricing issues may be required.

Accordingly, new providers of telephone exchange or exchange access service should be required to serve all customers requesting service within existing local serving areas unless resale of facilities from the incumbent LEC is restricted so severely that the new carriers are unable to provide service in the exchange as the Act expressly permits. While this is an issue left for the States to resolve, the universal service support policies and mechanisms adopted by the Commission and the Joint Board should not reflect an assumption that the States will resolve this issue in a manner adverse to areas served by rural telephone companies. Certainly, the universal service support policies and mechanisms adopted by the Joint Board and Commission should not encourage such an adverse resolution.

#### **5. Recovery of Non-Traffic Sensitive Local Loop Costs From Interstate and Interexchange Services Should Not Be Eliminated**

Many proponents of revising the current Universal Service support mechanisms are motivated by the prospect of eliminating the recovery of Non-Traffic Sensitive (“NTS”) costs of the local loop from interstate and interexchange services. **To the contrary, the establishment of a new Universal Service support does not justify elimination of the recovery of NTS costs from interstate and interexchange services.**

A critical element of the argument for reduced access charges is that the cost of interstate and interexchange services should not include any cost for the use of the local network because these services do not cause any of those costs. However, this position ignores the fact that the

local loop is essential to the provision of interstate and interexchange services and is contrary to sound economic analysis.

As explained in the study, Current Issues in the Pricing of Voice Telephone Services, by David Gabel, Ph.D. for the American Association of Retired Persons, the economic cost of toll service **includes** the cost of using the local network. That study states, in part:

Local exchange facilities are used by the different kinds of services that are provided over the facilities. As such, the engineering design standards, the functional characteristics of the facilities, and the investment and expenses incurred, are determined by the variety of functions for which those facilities will be used. This means that the costs of the common facilities are caused by the multiple services, and therefore the recovery of the costs must be shared among the services provided over them

\* \* \*

Long-distance standards dictated the design of the local network from approximately 1892 to 1983. More recently, the engineering requirements of high-speed data and video services have been the primary factors altering the design of the local exchange network.

(Emphasis added.) Pages 1, 2. Accordingly, the establishment of a new Universal Service support mechanism does not justify eliminating the cost of using the local network from the cost of interstate and interexchange services. While there is no requirement that the recovery continue to be obtained from the current combination of Subscriber Line Charges (“SLC”), per minute CCLC and traffic sensitive tariff rates, the principle that interstate and interexchange services pay for their use of the local network remains sound. An approach based on bulk or flat rate billing of a portion of the costs of the local loop instead of usage sensitive CCLC changes may be possible as long as support for high cost carriers remains at appropriate levels.

**6. Contributions to the Universal Service Support Should Be Based on Interstate Retail Revenues.**

Total interstate retail revenues from communication service providers, including all forms of interstate communication services, would provide one basis of equitable and non-discriminatory recovery of interstate Universal Service support funding requirements. Using total interstate retail revenues from telecommunications services as a basis for contributions would be consistent with the provisions of Section 253(b)(4) which provides that:

*All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.*

Clearly, the intent of the Act is that the relative contributions of different providers be determined on a competitively neutral basis. Such an approach should apply irrespective of technology employed. Such an approach should also apply in proportion to a provider's participation in the interstate telecommunications market.

**7. The Universal Service Fund Administrator Should Have A Proven Record of Ability To Administer Such Funding Programs.**

A third party administrator of the new universal service fund is required. NECA would be an appropriate administrator for the new Universal Service support because it has a demonstrated ability to administer similar funding mechanisms and has in place the organization needed to do so. It seems unlikely that any other possible administrator would be able to duplicate these advantages in a timely or efficient manner. NECA has performed in an exemplary manner its responsibilities as the administrator of current funds. This fact has been acknowledged by all segments of the industry. NECA is also a non-profit organization directly

accountable to the Commission. Further assurances of independence in the administration of any new universal service support fund can be readily achieved by the appointment of a separate, independent advisory council or board.

### III. CONCLUSION.

It is essential that the implementation of universal service support mechanisms conform to the priorities established by Congress in the Act and that the Commission or Joint Board not impose conditions or criteria that may not be consistent with the Act. The clear recognition by Congress that different issues and considerations may be present between areas served by rural telephone companies and other areas may provide a principle by which the Commission or Joint Board can develop reforms that also conform to the intent and priorities established by Congress in the Act. The Minnesota Independent Coalition appreciates the opportunity to submit its comments in this vitally important rulemaking proceeding.

Dated: April 11, 1996

Respectfully submitted,

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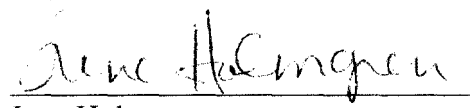
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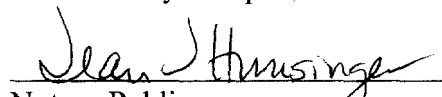
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Dated this 11th day of April, 1996.

  
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Subscribed and sworn before me  
this 11th day of April, 1996.

  
Notary Public

